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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. IV, No. 2 October 3, 1979

CURRENCY FIGURES

Rubles Purchased Per 100:

	Sep.78	Jul.79	Aug.79	Sep.79
Aust. s.	4.640	4.840	4.850	4.870
U.K.pound	131.000	142.250	150.000	147.200
W.Ger.mark	33.760	35.670	35.610	35.610
Can.dollar	58.470	56.150	55.420	55.900
U.S.dollar	67.100	65.400	64.700	65.200
Fr.franc	15.420	15.400	15.290	15.290
Jap. yen	.354	.304	.302	.298
Ital.lira	.080	.0788	.0793	.0797
Swiss fr.	41.040	39.750	39.420	39.420

Currency exchange rates for the Austrian shilling, the Canadian dollar, the U.S. dollar, and the Italian lira increased from August to September 1979, while the British pound and the Japanese yen declined. The West German mark, the French franc, and the Swiss franc remained unchanged.

DIRECTORY OF USSR FOREIGN TRADE ORGANIZATIONS

The Bureau of East-West Trade has published a "Directory of USSR Foreign Trade Organizations." This includes the names and addresses and organizational framework of the foreign trade organizations of the Ministry of Foreign Trade in the wake of the reorganization that has taken place within the last two years. It is a particularly useful tool for anyone interested in information about whom to contact with trade prospects. Those interested in receiving such a directory should contact the USSR Affairs Division, Room 4323, Office of East-West Country Affairs, Bureau of East-West Trade, Industry & Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230, or phone (202) 377-4655. The Department of Commerce intends to maintain listings of new trade organizations and to update the material.

INDUSTRIAL PRODUCTION FOR THE FIRST EIGHT MONTHS OF 1979

Product	Aug. 1979	Jan.-Aug.79	% of 1st 8 mos. of 79 over 78
Electricity [bil. kw. hours]	95.1	809	103
Petroleum (Including gas condensate) [mil.tons]	50.1	387	103
Natural gas [bil.cu.m.]	32.9	266	109
Coal [mil.tons]	58.6	483	100.6
Steel [mil.tons]	12.4	99.6	99
Fertilizer [mil.tons]	8.0	63.6	96
Metal-Cutting Tools [1000's]	19.3	154	98
Computer Technology [bil. rubles]	0.3	2.5	116
Watches [mils.]	5.6	43.0	103
Radios [mils.]	0.7	5.6	97
Television sets [mils.]	0.6	4.8	100.8
Paper [mil.tons]	0.5	3.1	96
Cement [mil.tons]	10.5	81.3	95
Meat [mil.tons]	0.8	5.5	104
Margarine [1000 tons]	75.8	812	102
Motor Vehicles [1000's]	185	1442	100.9
cars	114	876	100.1
brucks	63.9	514	102
Tractors [1000's]	46.1	336	96

INDUSTRIAL PRODUCTION CONTINUES TO GROW AT A SLOW RATE

As the accompanying table indicates, economic growth has slowed significantly in 1979. For the first eight months of the year, the Soviets report that the overall volume of industrial production increased by only 3.6%. That is way below the target. Consequently, the Soviet statement that the plan is .1% above target suggests that the Soviets have been tampering with the target after it was originally set.

Production in some specific industries is not even up to last year's levels. Repeating an observation from earlier Newsletters, that in part is due to the very cold winter that the Soviets have experienced this year. Not only was it cold in January and February, but some parts of the country also experienced very serious flooding problems in May and June. This has had an impact not only on industry but also on agriculture. But some segments of Soviet industry appear to be suffering from more than the weather.

Industries that report that they were unable to attain last year's production level include the steel industry, mineral fertilizer, the machine tool industry, the tractor industry, the paper industry, the cement industry, radio industry, and the washing-machine industry. Other industries are just barely attaining last year's goal. Thus, the automobile industry produced virtually the same number of cars that it did in 1978.

The news is a little better in the petroleum industry. Petroleum production increased by 2.7% over the corresponding eight months of 1978. That means that production is up 10 million tons over the preceding year. It is worth noting that for the first seven months of 1979, production was up 9 million tons. Thus the Soviets have apparently gained one extra million ton in their attempt to meet their target for 1979. However, at the present rate they are unlikely to meet the overall target, which originally called for them to produce almost 30 million tons more, rather than the 10 that they have after eight months.

Finally, the industry that seems to be doing the best, as has been noted earlier this year, is the gas industry.

Clearly, given the lack of success in the industrial sector, the harvest figures when they finally do appear are undoubtedly going to pose serious headaches for Soviet government leaders.

NEW SERIES OF CORPORATE SPONSOR CONFERENCES

The first conference is scheduled for Monday, November 5, as usual at Harvard University. In a departure from past practice, however, the Conference will be held at Coolidge Hall at Harvard University rather than the Harvard Faculty Club. Coolidge Hall is located at 1737 Cambridge Street and is the home of the Russian Research Center.

The topic for the first session will be "Opportunities for American Agriculture and Agro-Business." We have a variety of speakers from agriculture, industry, and the grain companies. Given the problems the Soviet Union continues to have with its agriculture, this should be a particularly timely session.

Since we will have a somewhat smaller seating capacity at Coolidge Hall than we have had at the Harvard Faculty Club, we may have to limit the number of participants. Therefore, we urge those who are interested to send in their applications as soon as possible. We will accept reservations on a first-come/first-serve basis.

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The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question; and, unless otherwise stated, with those of the editor, Marshall I. Goldman.

BALANCE OF TRADE - 1st HALF 1978 AND 1979
(Million Rubles)

	Exports From USSR		Imports To USSR	
	1978	1979	1978	1979
Austria	184	189	142	164
Belgium	217	182	126	149
GB	356	480	353	399
Greece	74	83	47	40
Denmark	85	107	23	50
Italy	549	518	437	419
Netherlands	122	291	86	128
Norway	28	32	17	23
Germany	634	774	1039	1196
France	389	485	496	685
Switzerland	96	92	127	151
Sweden	142	197	108	113
Japan	342	354	788	874
Subtotal	3218	3784	3789	4391
Sub-Balance of Trade			-571	-607
USA	100	119	1035	963
Canada	13	17	130	113
Australia	2	3	171	144
New Zealand	2	1	23	66
Total:	3335	3924	5148	5677
Balance of Trade			-1813	-1753

THE BALANCE OF TRADE & THE BAD SOVIET HARVEST

Soviet statistics show that the trade balance for the first half of 1979 was not especially encouraging for the Soviet government. Excluding the sale of arms and of precious metals such as gold, the Soviets showed some slight improvement in the overall trade deficit. The deficit was reduced by about 60 million rubles. However, that was due largely to the fact that import expenditures from the grain producing countries in the first half of 1979 were lower by approximately 60 to 70 million rubles than the preceding year. If one looks at the Soviet trade balance with Western Europe and Japan, the deficit has increased slightly. This is largely because of the sharp increase in imports from those countries, particularly France, West Germany, and Japan.

Now that the 1979 grain harvest is so far below projections, the Soviets will have to import considerable quantities of grain from the United States. If they import the full amount authorized by the United States Department of Agriculture, that should increase the trade deficit they have with the United States and in turn their overall trade deficit by a significant amount.

As for Soviet exports, there is a sharp increase in exports to West Germany. That is probably due to an increase in the export of natural gas. Similarly, there is an increase in exports to France and to Great Britain. In the case of France that may be natural gas, but in the case of Great Britain that is probably due to an increase in the sale of petroleum and timber.

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. IV, No. 3 November 6, 1979

PUBLICATIONS

The Joint Economic Committee of the Congress of the United States has just released a new two volume set on the Soviet economy. Prepared by the Library of Congress under the leadership of John Hardt, this new series is entitled "Soviet Economy in a Time of Change." Last year, they issued a volume on China and the year before that on Eastern Europe.

The subject matter includes papers written by staff members of the CIA as well as other government agencies, in addition to a large number of contributions by researchers attached to private universities. There is a lively discussion about energy written from the perspective of the university as well as the CIA.

Copies of the full report can be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, or from your local congressman.

The Central Intelligence Agency has just published a reference aid entitled "The Evolution of the Central Administrative Structure of the USSR, 1917-1979." It is a very useful flow chart of how the present-day ministries have evolved into the structure that now exists. Those interested in obtaining a copy should write to the CIA, Washington, D.C. 20505.

TWO-DAY SESSION IN WASHINGTON ON "HOW TO MARKET IN THE SOVIET UNION

The Bureau of East-West Trade of the Department of Commerce is holding a two-day session in Washington entitled "How to Market in the Soviet Union." It will present eight representatives from Soviet trade organizations discussing procedures for American firms wishing to trade with the Soviet Union. The session is scheduled for November 14th and 15th. Those wishing further information should call (202) 377-2835 and ask for Roger Stechschulte or call (202) 377-2872 and ask for David Bowie.

CURRENCY FIGURES

Rubles Purchased

Per 100:	Oct.78	Aug.79	Sep.79	Oct.79
Aust. s.	4.700	4.850	4.870	5.070
U.K.pound	130.000	150.000	147.200	142.200
W.Ger.mark	33.900	35.610	35.610	36.700
Can.dollar	55.900	55.420	55.900	55.350
U.S.dollar	66.000	64.700	65.200	64.350
Fr.franc	15.130	15.290	15.290	15.550
Jap.yen	.350	.302	.298	.290
Ital.lira	.080	.0793	.0797	.0797
Swiss fr.	44.330	39.420	39.420	40.860

Currency exchange rates for the Austrian shilling, the West German mark, the French franc, and the Swiss franc increased from September to October 1979, while the British pound, the Japanese yen, and the U.S. and Canadian dollars declined. The Italian lira remained unchanged.

PRESENT AMERICAN-SOVIET TRADE CONDITIONS

Conditions for American-Soviet trade are not the best these days. It was clear for some time that there would be no discussion of MFN status for the Soviet Union until some decision had been made by the Senate about SALT. Obviously that situation did not do much for trade prospects. However, as difficult as that situation may have been, the prospects for trade become even dimmer now if indeed the Administration moves ahead and decides to extend MFN status only to China. That obviously will be viewed with considerable concern by the Soviets. Unfortunately, not only will that have implications for trade, but conceivably that may cause a backlash in the attitude of the Soviet Union towards human rights and emigration.

This Newsletter normally avoids political comment, but this seems to be a very serious issue and one that those who are interested in both improved trade and improved human rights to the Soviet Union should be concerned about.

INDUSTRIAL PRODUCTION FOR THE FIRST NINE MONTHS OF 1979

Product	Jan.-Sept.79	% of 1st 9 mos. of 79 over 78
Electricity [bil. kw. hours]	904	103
Petroleum (Including gas condensate) [mil. tons]	435	103
Natural gas [bil. cu. m.]	299	109
Coal [mil tons]	540	100
Steel [mil. tons]	112	98
Fertilizer [mil. tons]	71.1	96
Metal-Cutting Tools [mil. rubles]	1,386	106
Computer Technology [bil. rubles]	2.8	116
Watches [mils.]	48.2	103
Radios [mils.]	6.2	96
Television sets [mils.]	5.4	101
Paper [mil. tons]	3.9	95
Cement [mil. tons]	91.8	96
Meat [mil. tons]	7.0	101
Margarine [1000 tons]	918	105
Motor Vehicles [1000's]	1,617	100.5
cars	982	99.8
trucks	576	102
Tractors [1000's]	410	96

Although they were a bit late, the Soviets did release the production figures for the first nine months of 1979. For a time it looked like they were holding them back, much as they did in January and February. However, in the October 28 issue of Pravda, the Central Statistical Agency did publish the figures that show relatively little change from conditions that have prevailed throughout the year.

The only noteworthy changes are that steel and automobile production seem to have fallen a bit more. Steel production now is 2% lower for the first nine months of 1979 than it was in 1978. Similarly, for the first time in many years, automobile production is lower by a fraction than it was for a similar period of the preceding year.

Overall the Soviets seem to be having difficulty meeting production levels of 1978 in a variety of industries. Thus, added to steel and automobile production are mineral fertilizers, synthetic fibres, tractors, paper, cement, shoes, butter, radios, refrigerators, washing machines, and motorcycles.

In the energy field, however, conditions seem to be somewhat better. Coal production is approximately the same as it was last year, gas production is up 9%, and petroleum is up 2.6% or 11 million tons higher than it was for the similar time in 1978. The Soviets concede they are having difficulties meeting their planned targets for the refining of petroleum and the mining of coal along with many of the other industries. However, at least there is some increase in production in the energy sector.

With difficulties in the agricultural sphere, which will be reported upon in the next Newsletter, clearly the economic planners have an enormous challenge ahead of them.

FIFTH ARDEN HOUSE CONFERENCE

For the fifth year in a row, the Russian Research Center at Harvard and the Russian Institute and the Graduate School of Business at Columbia will hold their annual Arden House Conference. This year, the dates will be Thursday evening, March 27th to Saturday afternoon, March 29th. Appropriately enough the theme for the fifth conference will be "U.S.-Soviet Relations in an Election Year."

As in previous conferences we hope to have representatives from Congress and the Executive Branch of the government, as well as senior officials from corporations, both American and foreign, who are involved in trading with the Soviet Union and Eastern Europe. As is traditional, they will be joined by scholars from the academic community in the unique setting that Arden House offers. Also in the tradition of the past, Marshall Shulman, a special advisor to Secretary of State Vance on Soviet affairs, will be the first speaker on Thursday evening.

The final program is being put together and application blanks should be sent out in the January mailing. However we are announcing the dates now, so that you can mark your calendar.

SECOND 1979-80 CORPORATE SPONSOR SERIES CONFERENCE

The next Corporate Sponsor Conference at Harvard is scheduled for February 11th. A copy of the program and a sign-up sheet is included with this mailing. As has been the tradition for our February sessions, the focus of the discussion will be on the results of the preceding year's economic developments. This will also involve discussion of the prospects for the fulfillment of the Tenth Five-Year Plan and the perspective on the new Eleventh Five-Year Plan, which should be announced sometime in 1980.

Joining the regular participants from the Russian Research Center will be Murray Feshbach, who is a Fellow at the Kennan Institute of Advanced Russian Studies in Washington, as well as Douglas Diamond from the CIA, and Martin Kohn from the State Department and the CIA.

The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question; and, unless otherwise stated, with those of the editor, Marshall I. Goldman.

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. IV, No. 4

December 5, 1979

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INDUSTRIAL PRODUCTION FOR THE FIRST TEN MONTHS OF 1979

Product	Oct. 1979	Jan.-Oct.79	% of 1st 10 mos. of 79 over 78
Electricity [bil. kw. hours]	106	1011	103
Petroleum (Including gas condensate [mil.tons]	50.4	486	102
Natural gas [bil.cu.m.]	35.5	335	109
Coal [mil.tons]	59.8	600	99.9
Steel [mil.tons]	12.7	124	98
Fertilizer [mil.tons]	7.5	78.5	96
Metal-Cutting Tools [mil.rub.]	145	1531	106
Computer Technol. [bil.rubles]	0.4	4.1	112
Watches [mils.]	5.7	53.9	103
Radios [mils.]	0.8	7.0	97
Television sets [mils.]	0.6	6.1	102
Paper [mil.tons]	0.4	4.4	95
Cement [mil.tons]	10.4	102	96
Meat [mil.tons]	0.9	7.4	100.9
Margarine [1000 tons]	113	1031	106
Motor Vehicles	193	1810	101
cars [1000's]	116	1098	100.3
trucks [1000's]	70.2	647	102
Tractors [1000's]	49.2	460	96

There is not much of a change from the report of the first nine months of the year. Output in many industries continues to be below that of 1978. Coal has been added to the list for the first ten months, where it was missing from the earlier September list. However, automobile production now is slightly ahead of where it was last year, but not by much. Energy production, however, continues to fare somewhat better than the other industries, except, of course, for coal. Thus, petroleum production is about 2.5% higher (the Soviets list it at 2%) in the first ten months of 1979 over the comparable period of 1978. Natural gas production continues to rise at a level of 9%.

In addition to the figures officially recorded, the Soviets at their recent Supreme Soviet Meeting, made projections for the whole year. According to present trends, the Soviets expect total petroleum production to reach 585 million tons, an increase of 13 million tons over 1978. That is significantly below the Plan for 1979, which calls for an increase of 21 million tons. Nonetheless, that is still an increase, although admittedly a disappointment for the Soviet Union. Whereas production was supposed to have increased by approximately 4% for the year, now the increase will be closer to 2%, which of course is considerably below the rate of growth the Soviets used to achieve in the petroleum industry as recently as five years ago. Still an increase of 13 million tons is equivalent to 260,000 barrels a day. As we had noted earlier this year, to some extent this difficulty is due to the extremely unusual weather, both cold and wet that took place from January to May. Nonetheless, output during the latter part of the year has also failed to grow as rapidly as the Soviets had hoped. So there is undoubtedly a sharp fall-off in growth.

The other major disappointment for the Soviet Union is the very sharp drop in agricultural production. The grain harvest now is expected to total 179 million tons, close to the 175 million tons predicted by the CIA. Considering that the harvest last year was 235 million tons of grain, that means that there is a fall-off of 56 million tons, a drop of close to 25%.

THE POOR SOVIET HARVEST-A GOOD HARVEST FOR AMERICAN AGRICULTURE AND BUSINESS?

On November 5, 1979, at Coolidge Hall, the Harvard University Russian Research Center, Columbia University's Russian Institute, and the U.S. Departments of Commerce and State sponsored a joint conference entitled "The Poor Soviet Harvest-A Good Harvest for American Agriculture and Business?" The speakers included Michael Zahn, U.S. Department of Agriculture; Walter Saunders, Cargill Inc.; Padma Desai, Columbia University; George Schukin, U.S.-USSR Trade & Economic Council; Peter Nowin, American Cyanamid; Peter Desjardins, FMC Corporation, Frank Seckler, Ceres International; Michael Rae, Welt International Corporation; David Schoonover, U.S. Department of Agriculture; and Morton Sosland, Sosland Publishing Company.

At the November 27th meeting of the Soviet Union's Communist Party's Central Committee, Secretary Brezhnev disclosed in his economic report that the official figure for the 1979 Soviet grain harvest is 179 million metric tons, the lowest since the crop of 140 million tons in 1975. The reported size of the harvest is just slightly above the United States' Department of Agriculture's (USDA's) projection of 175 million tons. This year's harvest is significantly below the 1978 record level of 237.2 million tons.

In contrast to 1978, 1979 winter conditions were notably severe, with several weeks of record low temperatures. There was about a 20% winter kill of Soviet grains. This, when added to the low level of area sowed last fall, contributed to a dramatic drop in grain production.

The USDA currently expects the Soviet Union to import 32 million tons of grain this year. This figure reflects not only the Soviets' needs, but also their ability to finance, process, and store the imported grain. About 20% of U.S. grain exports will be sent to the Soviet Union. So far, the Soviets have contracted to import 9.1 million tons (5.2 million tons of corn and 3.0 million tons of wheat). Last year, the breakdown was 11.6 million tons of corn and 3.9 million tons of wheat.

It is difficult to predict the future of Soviet grain production. The Soviet Union has the potential to produce grain within the range of their 1980-85 targets (238-243 million tons), as was demonstrated in 1978. The future of Soviet grain production is likely to be highly dependent on fertilizer use. Last year, it became apparent that the Soviet fertilizer industry was experiencing some problems. The rapid growth in the industry, which had occurred during the 1960's and early 1970's had ground to a halt. In the first quarter of 1979, fertilizer deliveries to agriculture actually fell 9.4% below the 1978 figure. Because it appears that any significant increase in agricultural yields will have to come as a result of the use of chemical fertilizers, there are serious questions as to the realism of Soviet grain production goals.

While a poor Soviet harvest might have a direct effect on the purchase of grain, with agricultural machinery there is not always a direct relationship. The process by which the Soviets decide to import machinery is complicated. It is difficult to say "this year, there was a crop failure, hence, they will buy a certain number of farm machines." If anything, the diversion of hard currency into grain will reduce the Soviets' ability to purchase additional machines. However, if the poor grain harvest indicates to the Soviet leadership that further improvements need to be made in agriculture, they might prefer to spend money to improve their farming equipment and techniques rather than spend 3-5 billion dollars annually to make up for shortfalls in their harvest.

There is not a great potential market for U.S. agricultural equipment in the Soviet Union. It might be possible to sell the Soviets 1 or 2 of a given model of tractor or harvesting combines, which they will test and attempt to copy, but this does not provide a machine producer with an attractive market. The real market is in adapting designs of established machinery to local conditions and providing the means to produce the modified designs locally.

The 1973 Agreement on Cooperation in Agriculture has facilitated the establishment of contacts between Americans and Soviets working in agriculture and the development of

joint agricultural research. It has also led to an increase in the exchange of information including statistical data, but it has not led to better foreign trade data or an exchange of crop forecasts. One of the reasons the Soviets may be reluctant to release more detailed information about their agricultural data is their fear of weakening their bargaining position in grain deals.

In order to lessen the impact of Soviet purchases on the U.S. grain market, and also for domestic political reason, it might prove necessary to revise the 1975 US-USSR Grain Agreement. Under the present agreement, the Soviets are committed to purchase 6-8 million tons of grain a year. Two solutions are suggested: One is to raise the minimum and the maximum purchase levels to 10 and 15 million tons. Another is to include a provision in the revised agreement that, when the maximum is increased above the level guaranteed in the pact, the minimum should also be increased according to some formula. Provided that the increased purchases made by the Soviet Union can be of corn rather than wheat, (corn being a preferred feed for its livestock) it is likely that agreement between the US and the USSR can be obtained.

Ethan S. Burger

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Can.dollar	56.530	55.900	55.350	55.350
U.S.dollar	66.480	65.200	64.350	65.400
Fr.franc	15.310	15.290	15.550	15.550
Jap.yen	.350	.298	.290	.278
Ital.lira	.079	.0797	.0797	.0788
Swiss fr.	40.600	39.420	40.860	39.220

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RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. IV, No. 5 January 2, 1980

NEW ECONOMIC REFORMS

After much discussion, the Central Committee of the Communist Party and the Soviet Council of Ministers have announced a new economic reform. The last reform of this scope was introduced in the mid 1960's and came to be known in the West, somewhat inappropriately, as the Liberman Reforms. This new set of reforms in some respects is equally intriguing, although not as far reaching.

The reforms in the 1960's focused on the shift from setting output targets in quantity produced to profits. It also introduced an emphasis on sales of goods actually made rather than on production itself. Efforts were also made to increase incentives for workers and to set up incentive funds. The process involved decentralization and turning over more control to individual managers of each factory. To make profits meaningful, a massive price readjustment was introduced at the wholesale level in 1967.

The reforms were met with mixed results. There seemed to be some success in some sectors of the economy, but less so in others. The process, however, seems to have come to an end or at least was frozen in 1968, when a similar experiment was aborted in Czechoslovakia by the Russian invasion. The Soviets seemed to fear that the economic reforms introduced by the Czechs led not only to economic decentralization but would lead to political decentralization both internally and externally. The Soviets not only curbed all such efforts in Czechoslovakia but sharply cut back on their own experimentation for fear that it could set loose forces that might subsequently be too difficult to control.

The present reform, therefore, comes approximately fifteen years after the earlier efforts. It is considerably different in nature. The main effort, this time, seems to be on more efficient utilization of inputs. Thus, the hope is that quality will come through reducing waste, which in turn should lead to a reduction in the wake of more Soviet products. There is, however, much less stress on decentralization and extending more autonomy to individual managers. Indeed, the consequence of the new reform is likely to be an increase in centralization.

The main target for change is the system of using gross output (valovaia) as a means of judging managerial performance. Gross output normally is calculated by valuing the inputs of a product in ruble terms. The higher the value of output of a particular enterprise, the better the performance is judged to be, and the more likely the manager will be to receive a premium on his salary. Inevitably, over the years, the Soviet managers have learned that an easy way to build up the gross value of production is to increase the value of raw material or prefabricated products used. In other words, there is an incentive for increasing the value of inputs rather than decreasing it. It is true that the manager has also been concerned about profits, but the role of profits has always taken a secondary role to the drive to increase the gross value of output.

Under the new 1979 reform, the new criteria for judging success of a factory manager will be what the Soviets have come to call "the normative net output or the processing value." This apparently is comparable to the concept of value added. Henceforth, norms will be set for each industry of net output or value added, and the manager will be judged on how close he or she comes to holding costs to that norm. At the same time, because profits will still be used as a measure of performance, the manager will have an incentive to reduce other costs, particularly since he or she will no longer have any incentive to build up those costs. Thus cost reduction will now have an important role.

Much of the discussion about the rationale for introducing these new reforms focuses on the importance of holding down raw material usage. Under the old system, raw materials were squandered. In the new circumstances that now prevail in the Soviet Union, where raw

materials and particularly energy resources have a high opportunity cost, this new system would seem to be a step in the right direction. By holding down raw material and energy usage, the Soviets will not only have more for the future but more available for export.

Clearly, however, there are some problems with the new system. The prevailing prices from 1967 clearly do not reflect the change in economic relationship within the country. Consequently, there is now a discussion about another massive wholesale price reform comparable to what took place in 1967. As before, it will affect almost all wholesale prices in the machine, construction, and processing industries. The likelihood, therefore, is that coal, oil, and gas prices will be changed. That is particularly important now that the coal industry is running at a loss, and that the petroleum industry is running at only a 10% profit margin. Undoubtedly, however, this new price reform, when it comes in the next few years, will involve a massive readjustment for many industrial sectors.

Another difficulty is that the net norms for each industry must be set on a case by case basis. This means, therefore, that the amount of centralized control will probably increase. Thus, the likelihood is that there will be more problems, since it seems increasingly difficult to run an economy as complex as the Soviet Union's without more decentralization. At the same time, however, it is important to recognize that there has been an attempt to decentralize through the formation of syndicates or holding companies within particular industries. This reform was introduced a few years ago and will continue under the present plan. The hope here is that by adapting the western model of organization, the holding company or syndicate can coordinate activities of comparable enterprises and also coordinate in a much more rational fashion the research activities and production activities within a particular industry. It is hoped that this will improve not only innovation and production but also foreign trade operations.

The Soviets' hope is clearly that this new reform will bring about needed improvements. Based on the changes that have been introduced so far, however, there is good reason to believe that the problems that seem to be inherent in the Soviet economy will not be eliminated over night. Nonetheless, one clear benefit should be the reduced waste of raw materials. If that can be accomplished, that in itself will be an important achievement.

CURRENCY FIGURES

Rubles Purchased Per 100:	Dec.78	Oct.79	Nov.79	Dec.79
Aust. s.	4.770	5.070	5.070	5.170
U.K.pound	131.000	142.200	138.050	140.800
W.Ger.mark	34.900	36.700	36.280	37.000
Can.dollar	57.110	55.350	55.350	55.100
U.S.dollar	67.100	64.350	65.400	64.400
Fr.franc	15.220	15.550	15.550	15.750
Jap.yen	.342	.290	.278	.260
Ital.lira	.079	.0797	.0788	.0788
Swiss fr.	38.790	40.860	39.220	40.000

Currency exchange rates for the Austrian shilling, the U.K. pound, the West German mark, the French franc, and the Swiss franc increased from November to December 1979, while the U.S. and Canadian dollars and Japanese yen declined. The Italian lira remained unchanged.

FIFTH ANNUAL ARDEN HOUSE CONFERENCE

As announced earlier, the fifth annual Arden House Conference will be held from March 27 to 29. The preliminary draft of the program is included in this Newsletter. Several senators and congressmen have indicated that they would probably also participate in the program, but must wait until January when the congressional calendar is set up to let us know definitely. Also enclosed is an enrollment form, which should be sent to: Executive Programs, Graduate School of Business, 807 Uris Hall, Columbia University, New York, N.Y. 10027.

SECOND 1979-80 CORPORATE SPONSOR SERIES CONFERENCE

We are again enclosing a copy of the program and an enrollment form for the second 1979-80 Corporate Sponsor Series Conference entitled "The Fulfillment of the 10th Five-Year Plan and Economic Prospects for the New 11th Five-Year Plan." The conference is scheduled for Monday, February 11, 1980, and will take place at the Harvard Faculty Club, 20 Quincy Street in Cambridge.

Balance of Trade Jan.-Sept. 1977, 1978, and 1979

(Million Rubles)

	Exports From USSR			Imports To USSR		
	1977	1978	1979	1977	1978	1979
Austria	265	290	333	184	198	249
Belgium	372	348	382	161	172	205
GB	697	586	723	283	477	579
Greece	162	149	146	64	56	53
Denmark	147	140	194	41	29	61
Italy	798	829	854	578	622	615
Netherlands	307	208	611	132	117	178
Norway	57	43	59	39	25	36
Germany	818	1011	1391	1378	1472	1718
France	595	621	928	722	754	930
Spain	135	80	103	42	75	99
Switzerland	73	152	213	166	174	204
Sweden	196	218	368	184	141	165
Japan	628	531	636	1109	1272	1218
Subtotal	5250	5206	6941	5083	5584	6320
Sub-Balance of Trade				+167	-378	+621
USA	219	179	218	994	1411	1724
Canada	36	21	25	271	560	217
Australia	3	4	4	267	219	227
New Zealand	2	2	2	80	34	87
Total	5510	5412	7190	6695	7808	8575
Balance of Trade				-1185	-2396	-1385

The balance of trade figures improved significantly. As has been true since 1973, one of the prime beneficiaries of any OPEC price increase is the Soviet Union. While petroleum prices in 1977 and 1978 were relatively constant, the very sharp increases since the beginning of 1979, particularly in the wake of the troubles in Iran, have been of vast importance for the Soviet Union. Whereas in 1978, the Soviets had a very serious deterioration in their export-import balance, which ultimately had to be made up by the sale of approximately $2.6 billion in gold, this year, the situation is much better. The improvement has been taken place despite the noticeable increase in purchases of grain from the United States. Soviet imports from the United States are over 300 million rubles (approximately $450 million at the artificial exchange rate specified by the Soviet Union). Nonetheless, this is more than offset by the fact that, for the first three quarters of the year, the Soviets have exported 1.7 billion rubles more than they had during the corresponding period in 1978. This is equivalent to $2.6 billion. For the most part, this very sharp increase in the export of goods is due to the increase in petroleum prices. There is also very strong circumstantial evidence to indicate that the Soviets are playing an active role in the petroleum spot market in the Netherlands. Thus, for the first three quarters of 1979, Soviet exports to the Netherlands shot up by 600 million rubles to 854 million rubles compared to a total of approximately 200 million rubles for the preceding year. That is equivalent to a $900 million increase. It is safe to assume that most of that increase in exports to the Netherlands was in petroleum that was sold on the spot market.

Similar increases in export also occurred to the Soviet Union's main petroleum customers, which include France, where there was a 300 million ruble increase in exports, and Germany, where there was almost a 400 million ruble increase. Of course, it is also possible that natural gas exports increased to Germany, Austria, Italy, and France. In any case, the Soviets' success with petroleum exports makes it possible for them to bring their trade balance out of deficit without the necessity of having to sell gold. Consequently, the overall deficit for the first three quarters of 1979 is approximately 1 billion rubles less than it was during the first three quarters of 1978, despite the increased grain imports.

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RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. IV, No. 6

February 1, 1980

INDUSTRIAL PRODUCTION FOR THE FIRST ELEVEN MONTHS OF 1979

Product	Nov. 1979	Jan.-Nov.79	% of 1st 11 mos. of 79 over 78
Electricity [bil. kw. hours]	110	1120	103
Petroleum (Including gas condensate [mil.tons]	49.0	535	102
Natural gas [bil.cu.m.]	35.1	370	109
Coal [mil.tons]	57.0	657	99.5
Steel [mil.tons]	12.1	137	98
Fertilizer [mil.tons]	7.6	86.1	96
Metal-Cutting Tools [mil.rub.]	146	1676	106
Computer Technol. [bil.rubles]	0.3	3.5	116
Watches [mils.]	5.3	59.2	103
Radios [mils.]	0.7	7.7	97
Television sets [mils.]	0.6	6.7	102
Paper [mil.tons]	0.4	4.8	95
Cement [mil.tons]	10.3	112	96
Meat [mil.tons]	0.8	8.1	100.3
Margarine [1000 tons]	115	1146	105
Motor Vehicles	178	1988	101
cars [1000's]	107	1205	100.5
trucks [1000's]	65.2	712	102
Tractors [1000's]	46.5	505	96

As we are going to press, the industrial statistics for the whole twelve months of 1979 have not yet arrived in the United States. However, the results for the first eleven months give us a fairly good idea of what the twelve months figures will show. With the exception of natural gas production, the Plan results for almost all of the industrial sectors of the Soviet economy have lagged behind the Plan results of the first eleven months of 1978. The percentage increase in output for the first eleven months of 1979 must be very disappointing for the Soviets. A whole range of industries actually produced less in the first eleven months of 1979 than they did in the first eleven months of 1978. For example, output fell in the steel, coal, mineral fertilizer, paper, and cement industries. This was the same trend that we noted in our December Newsletter, and the drop in output is about the same. There was an increase in electrical generation and in oil industry output, but whereas for 1978 electrical output increased by 4%, so far in 1979, it has been increasing at 3%.

The situation with oil is approximately the same as with electricity. Output in 1978 increased officially at 5%. So far, in 1979, it has increased by about 2 1/2%. As we mentioned in the December Newsletter, the original Plan for 1979 called for petroleum output to increase by 21 million tons. So far it has increased by 13 million tons above what was produced in 1978. If the Soviets can continue that, then they will have fulfilled their revised expectations as announced in November. That will certainly not satisfy their expectations from the overall Plan, but it will still be a rather substantial increase in output. There is a danger in holding the Soviets too much to their own optimistic expectations, because we should recognize that an increase of 13 million tons is still an impressive performance in this age when American output often falls from month to month.

Nonetheless, the overall prospect must certainly be disappointing, and the invasion of Afghanistan can do nothing to facilitate overall growth in output for the future. There are certainly going to be distortions and complications as the Soviet economy adjusts itself to the movement of military personnel from one part of the country to another and to the diversion of resources from the civilian sector to the military sector.

CURRENCY FIGURES

Rubles Purchased Per 100:	Jan.79	Nov.79	Dec.79	Jan.80
Aust. s.	4.850	5.070	5.170	5.170
U.K.pound	132.000	138.050	140.800	142.540
W.Ger.mark	35.530	36.280	37.000	37.170
Can.dollar	55.740	55.350	55.100	54.520
U.S.dollar	65.900	65.400	64.400	63.950
Fr.franc	15.490	15.550	15.750	15.940
Jap.yen	.338	.278	.260	.268
Ital.lira	.0790	.0788	.0788	.0795
Swiss fr.	40.130	39.220	40.000	40.000

Currency exchange rates for the U.K. pound, the West German mark, the French franc, the Japanese yen, and the Italian lira increased from December 1979 to January 1980, while the U.S. and Canadian dollars declined. The Austrian shilling and Swiss franc remained unchanged.

NEW PUBLICATION

The following new publication is available now: "The Structure and Functions of the U.S.S.R. State Committee for Science and Technology," Foreign Economic Report No. 16, U.S. Department of Commerce, Bureau of the Census. If you are interested in receiving a copy of this report, you may request one by writing to: Vincent P. Barabba, Director, Bureau of the Census, U.S. Department of Commerce, Washington, D.C. 20230.

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INVASION OF AFGHANISTAN

In the past, our Newsletter has tried to stay away as much as we can from political commentary. The invasion of Afghanistan, however, makes it very difficult to avoid some comment.

The invasion certainly comes as a shock to many of those who had hoped that improved trade would bring with it the increased likelihood of a more restrained international policy by the Soviet Union.

The invasion clearly has brought about a very determined response from the outside world. The future of trade within the next couple of months is very much in doubt. In good part, the future of trade depends on how quickly, if at all, the Soviet Union removes its troops from Afghanistan. For the time being at least the prospect is not a very promising one. Naturally the question arises as to what caused the Soviet Union to do what it did. Perhaps we will never know that answer. But in evaluating what has happened, there does seem to be good reason to believe that the Soviets made a very serious miscalculation. Certainly the reaction to the Soviet invasion is causing exactly the opposite of what the Soviet Union would have preferred to happen. In this sense, this could lead to rearming by the United States, and possibly even a rearming by Japan. Moreover, the fear and concern and disapproval by the countries of the developing world certainly must have come as a disappointment to the Soviet Union. Finally, the very likely possibility of a cancellation of the Olympics could affect Soviet opinion more than anything else that the West could do short of war. Sports are very important to the average Soviet male, and the Olympics were viewed almost as a Soviet "coming-out party." To have a sharply reduced guest list and the possibility that the whole party might be called off certainly would affect Soviet policy significantly in the future.

There is also the question of what impact the invasion will have on the Soviet economy. Certainly it will affect Soviet foreign trade. In addition it is bound to put a strain on Soviet domestic production. As the eleven-month report indicates in this Newsletter and as will be discussed in more detail at the Corporate Sponsor Seminar on February 11, the Soviet economy has enough difficulty, and this latest adventure can only increase the pressures on Soviet economic life.

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RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. IV, No. 7 March 1, 1980

CURRENCY FIGURES

Rubles Purchased Per 100:

	Feb.79	Dec.79	Jan.80	Feb.80
Aust. s.	4.880	5.170	5.170	5.130
U.K.pound	132.000	140.800	142.540	144.900
W.Ger.mark	35.660	37.000	37.170	36.860
Can.dollar	55.450	55.100	54.520	54.880
U.S.dollar	66.100	64.400	63.950	63.950
Fr.franc	15.560	15.750	15.940	15.750
Jap.yen	.332	.260	.268	.267
Ital.lira	.079	.0788	.0795	.0792
Swiss fr.	39.250	40.000	40.000	39.590

Currency exchange rates for the Can.dollar and the U.K. pound increased from January to February 1980, while the Austrian shilling, the West German mark, the French franc, the Japanese yen, the Italian lira, and the Swiss franc declined. The U.S. dollar remained unchanged.

FINAL CORPORATE SPONSOR CONFERENCE FOR THE YEAR

As we announced in our last Newsletter, we are planning to focus our third Corporate Sponsor Seminar of the year on the political situation. This is meant to compensate for the cancellation of the Arden House Conference. As you can see from the enclosed program, we have tried to bring together a variety of viewpoints. It should make for an interesting session, and we hope that as many of you as possible will be able to attend.

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INDUSTRIAL PRODUCTION FOR JANUARY 1980

Product	Jan. 1980	% of Jan. 1980 over Jan. 1979
Electricity [bil. kw. hours]	122	105
Petroleum (Including gas condensate [mil. tons]	50.4	103
Natural gas [bil.cu.m.]	37.1	106
Coal [mil.tons]	62.3	99
Steel [mil.tons]	12.7	104
Fertilizer [mil. tons]	8.9	136
Metal-Cutting Tools [mil. rub.]	151	106
Computer Technology [mil. rub.]	339	122
Watches [mils.]	5.4	103
Radios [1000's]	679	104
Television sets [1000's]	614	109
Paper [1000 tons]	451	102
Cement [mil.tons]	10.2	126
Meat [1000 tons]	799	110
Margarine [1000 tons]	114	102
Motor Vehicles	114	102
cars [1000's]	115	100.8
trucks [1000's]	68.5	103
Tractors [1000's]	47.1	99

In this issue of the Newsletter, we are publishing not only the industrial production figures for January 1980, but for the whole 12 months of 1979. The 12-month statistics are discussed in the report by Ethan Burger of our Corporate Sponsor Seminar, but it is worth adding a word or

two about the accompanying table. A look at the percentage figures in the last column suggests the difficulties the Soviet economic planners had in 1979. Those same figures, if published in the United States, would probably be a sign of recession. Not only was the wheat harvest off 25% and the rye harvest down by 40%, in addition, sugar beet production was down almost 20% from the preceding year. That, by the way, is probably one of the reasons why there was such a sharp increase in the world price of sugar. But more importantly, industrial production in a series of key industries was below what it had been in 1978. In particular such major industries as steel, coal, fertilizer, and cement were down from what they had been in the previous year.

The release of the January 1980 figures indicates what appears to be a recovery. However, it should be remembered that January 1979 was a particularly bad month, largely because of the cold weather. Conditions were so bad that the January and February figures for 1979 were not published. With the release of the January 1980 figures, it is possible to reconstruct the production figures for January 1979. By calculating backwards, it appears that in particular the most adversely affected industry in January 1979 was the steel industry. Steel production was only 95% of what it had been in January 1978. That alone probably warranted the withholding of the information. Ultimately, as the weather improved, overall steel production for the whole 12 months of 1979 recovered somewhat, so that production was only down 1% from all of 1978. However, because production was so low in January 1979, it would not take much to show that production improved in 1980. As a result, steel production for January 1980 is 4% higher than it was in January 1979. For that matter, most of the industries show a rebound from what they were in January 1979. One major exception is the coal industry. Here production in 1980 is below what it was in January 1979, which in turn was below what it was in January 1978. Clearly this is a problem industry, and it is logical to assume that the Soviets will be devoting a major effort in trying to increase production. In a more normal time that presumably should mean that the Soviets would be seeking to buy American equipment to facilitate their coal extraction operations.

It is also noteworthy that meat production has jumped 10% in January 1980. That may reflect distress slaughtering.

Finally it is worth saying a word about oil production. Oil production is reported to be 3% higher than the corresponding period of 1979. The indication is, however, that it is slightly below the corresponding percentage increase in 1979. Nonetheless, it reflects the fact that the Soviets continue to increase their production. While the CIA may still prove to be right, so far their predictions that petroleum production would drop in the Soviet Union continues to be premature. Originally, in their April 1977 report, they predicted that production would drop in 1978, then 1979, and then 1980. So far, however, it continues to increase. It will be interesting to see what happens during the rest of the year.

INCREASE IN SALES OF GOODS AT STATE AND COOPERATIVE STORES

	Percent Increase 1978 Over 1977	1979 Over 1978
Bread Products	103	101
Meat & Meat Products	105	102
Fish & Fish Products	100.7	100
Butter	101	101
Margarine	103	104
Cooking Oil	103	102
Cheese	106	103
Eggs	106	104
Sugar	102	100
Confectionery Products	96	107
Tea	108	106
Potatoes	100	108
Vegetables	107	109
Fruit & Citrus Fruit	101	106
Clothing	105	105
Leather Shoes	104	105
Dishware	110	108
Soap	105	113
Furniture	105	104
Ice-Refrigerators	105	99
Washing Machines	102	99
Vacuum Cleaners	106	98
Watches	103	104
Photographic Equipment	109	110
Motorcycles	102	104
Bicycles	104	100
Radios	101	101
Televisions	112	95
Colored Televisions	120	130
Passenger Automobiles	106	101

INDUSTRIAL PRODUCTION FOR THE 12 MONTHS OF 1979

Product	Jan.-Dec. 1978	% of 12 mos 78 over 12 mos. 77	Jan.-Dec. 1979	% of 12 mos. 79 over 12 mos.78
Electricity [bil. kw. hours]	1202.0	104.0	1239	103
Petroleum (Including gas condenstate) [mil. tons]	572.0	105.0	586	102.4
Natural gas [bil. cu. m.]	372.0	108.0	407	109
Coal [mil. tons]	724.0	100.2	719	99
Steel [mil. tons]	151.0	103.0	149.	99
Fertilizer [mil. tons]	98.0	101.0	945	96
Computer Technology [bil. rubles]	3.3	119.0	3.9	118
Watches [mils.]	63.3	104.0	645	102
Radios [mils.]	8.7	101.0	8.5	99
Television Sets [mils.]	7.2	101.0	7.3	101
Paper [mil. tons]	5.5	102.0	5.2	95
Cement [mil. tons]	127.0	99.9	123	97
Meat [mil. tons]	9.5	105.0	9.5	100
Vegetable oil production [mil. tons]	3.0	100.7	2.8	93
Motor Vehicles	2151.0	103.0	2173	101
cars [100's	1312.0	102.0	1314	100
trucks	762.0	104.0	780	102
Tractors	576.0	101.0	557	97
Grain	235.0	120.0	179	76
Wheat	120.8	131	90.1	75
Rye	13.6	160	8.1	60
Corn	9	82	8.4	93
Rice	2.1	95	2.4	114
Cotton	8.5	97	9.16	108
Sugar beets	93.8	101	76	81
Sunflower	5.31	90	5.37	101
Potatoes	85.9	103	90.3	105
Vegetables	26.3	114	25.8	98

CORPORATE SPONSOR SERIES CONFERENCE ON FEBRUARY 11, 1980

On February 11, 1980, a conference on "The Fulfillment of the 10th Five-Year Plan and Economic Prospects for the New 11th Five-Year Plan" was held in the Harvard Faculty Club. sponsored by the Harvard Russian Research Center, Columbia University's Russian Institute, the U.S. Department of Commerce's Bureau of East-West Trade, and the U.S. Department of State. Speakers included Murray Feshbach of the Kennan Institute, David Powell of the Russian Research Center, Martin Kohn of the Department of State and the Central Intelligence Agency, Leon Smolinski of the Russian Research Center, Abram Bergson, Director, the Russian Research Center, James Noren of the Central Intelligence Agency, Joseph Berliner of Brandeis University and the Russian Research Center, Marshall I. Goldman of Wellesley College and Associate Director of the Russian Research Center, and Franklyn Holzman of Tufts University and the Russian Research Center.

The speakers reported that 1979 was not a good year for the economies of Eastern Europe nor for the Soviet Union. The poor performances can, in a large degree, be attributed to the bad weather. However, the slowdowns and downturns in the East Bloc economies cannot be attributed solely to the weather. Reduced or disappearing rates of growth partially reflected deliberate policy decisions. Declines in the growth of the rate of investment have occurred in most of the CMEA nations. Investment, generally, is down significantly from the rates of 5-10 years ago. The most notable decline in investment was in Poland and Hungary, where investment dropped by 11% and 5-6% respectively. Other factors contributing to the economic slowdown in the Bloc countries are due to bad management and planning, misguided and short-sighted investment decisions, and poor coordination of production activities.

Official Soviet data claim a 2% growth in GNP with a 3.4% gain in gross industrial output during 1979. The CIA estimates Soviet GNP growth as 0.7%, the lowest rate since World War II. Not only was it a very bad year for agriculture, but construction, fertilizer, and steel production were also off. The absolute drop in fertilizer production for the year suggests that the Soviets will have difficulty in making major improvements in their grain yields in the near term. While the bad weather can be blamed for the poor performance of the Soviet economy to learge measure, other factors, particularly the further deterioration of railroad system had a major impact. As early as 1976, there was a sharp rise in freight-turnaround time and a decline in the average speed of freight trains; both important indicators of an economy in which railroads transport 3/5 of the volume of freight turnover.

In the critical area of energy, Soviet oil production continued to grow, though at a notably slower rate. Natural gas production continued to grow, but coal production actually fell off from the 1978 mark, primarily due to the bad weather. The Soviets were able, because of the rising price of oil on the world market, to decrease the volume of their oil exports to the West while increasing their own revenues from foreign trade. Some of these oil savings may have been used to increase marginally their oil exports to Eastern Europe. Most of Eastern Europe is energy poor. The Soviet Union provides more than 75% of Eastern Europe's imported energy, except for Romania. The CIA predicts, as Soviet oil production levels off, their exports to their CMEA partners will also level off. Additionally, the terms of trade for the Eastern European countries is likely to become worse. The Soviets even suggested abandoning the 5 year moving index of world market prices that presently determined the intrabloc price for a three-month index. While this proposal was probably just a negotiating ploy, a switch to a three-year moving index should not be a surprise. Thus, in the future, the price of Soviet oil to their CMEA partners should increase to that of the world price.

One of the factors limiting future Soviet economic growth is a slowdown in the growth of the labor force. The republics likely to exhibit a net growth in population in the fugure are the Central Asian republics; the Russian Republic is likely to remain constant; and a decline in the Baltic Republics is expected. This uneven population growth

may have significant political, industrial, and military implications. The Soviets are also experiencing problems in the area of mortality. Much of this rise occurs in two areas: infant mortality and male mortality in the 20-29 age range--possibly due to alcoholism. To compensate for the reduction in the growth rate of its labor force, the Soviets are attempting to keep workers of retirement age in the work force through monetary incentives.

Partially as a result of the U.S. embargo on exported grain and new restrictions on the transfer of technology, a new attitude may be developing in the Soviet Union towards increased dependence on the West. Not only has the cutoff of grain hurt the Soviet Union in its meat consumption plans, but the failure of several large investment schemes using foreign technology may force a reappraisal by the Soviet leadership. In the fugure, the Soviets are likely to be less venturesome in their foreign purchases and emphasize projects that do not require a large number of imported spare parts.

It is unlikely that the Soviet Union will decrease defense expenditures as a means to increase investment and stimulate new economic growth. Soviet GNP growth is likely to fall in the range of 3.0-3.5% a year for the new decade. If the CIA predicted shortfall in oil occurs, the rate may be a percent lower. The impact of a complete Western technology embargo on the Soviet Union probably wouldn't have the effect of shaving more than a few tenths of a percent off the above estimate.

Ethan Burger

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NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. IV, No.8

April 1, 1980

INDUSTRIAL PRODUCTION FOR FEBRUARY 1980

Product	Feb. 1980	% of Jan-Feb. 1980 over Jan.-Feb. 1979
Electricity [bil. kw. hours]	115	107
Petroleum (Including gas condensate [mil. tons]	47.1	105
Natural gas [bil.cu.m.]	54.9	108
Coal [mil.tons]	60.7	100.7
Steel [mil.tons]	12.3	105
Fertilizer [mil. tons]	8.4	127
Metal-Cutting Tools [mil. rub.]	154	105
Computer Technology [mil. rub.]	340	127
Watches [mils.]	5.4	105
Radios [1000's]	683	103
Television sets [1000's]	614	108
Paper [1000 tons]	432	104
Cement [mil.tons]	9.8	117
Meat [1000 tons]	697	113
Margarine [1000 tons]	117	103
Motor Vehicles	184	103
cars [1000's]	111	103
trucks [1000's]	66.4	104
Tractors [1000's]	46	100.2

The production results for February 1980 have just been released by the Central Statistical Agency of the Soviet Union. They are notable in several respects. Soviet production seems to have increased significantly, both in February, and for the first two months of the year. It should be remembered, as was mentioned in our March Newsletter, that part of the reason for this is the very dismal performance that took place in January and in February of 1979. Inevitably production in 1980 will look better compared to the poor performance of the year earlier. Remember that the poor performance of 1979 was in part due to the very cold weather. In any case, it is clear that the economy seems to have recovered, at least in the industrial sectors.

Particularly noticeable is the fact that oil production is up 5% for the period of the first two months of 1980 over 1979. The CIA had reported in 1979, after the very poor results for that year, that Soviet energy production seemed to be faltering. While the 5% increase that is indicated for January-February 1980 may convey an unduly optimistic picture, the fact remains that, if the CIA interpreted the poor results in 1979 as a sign that the Soviet petroleum industry was in trouble, presumably they should be impressed with the growth that has taken place so far this year.

If petroleum growth is examined over a two-year period of time since 1978, then the Soviets should be quite pleased with their performance. Petroleum output for January and February of 1978 was 90.1 million tons. For the corresponding period of 1980, it was 97.4, a rate of growth of 8.1% over a two-year period of time. That means that production has been incresing at approximately 4% a year. That represents an increase from what seems to be a rate of less than 3%. Again it should be emphasized that performance over a two-month period of time does not indicate that the Soviets have solved all their production problems. Nonetheless, it is an impressive demonstration that there is still a lot of potential left for the Soviet petroleum industry.

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There seems to have been a similar type of recovery in almost all the sectors of the Soviet economy. As compared to 1979, when an unusually large number of industries reported an actual drop in production, so far there are very few industries reporting such a phenomenon this year. It may very well be that conditions will change during the course of the year, but for now production is up even in the steel industry. The coal industry is not doing as well, but at least they are producing more so far in 1980 than they did in 1979.

One notable statistic is the increase of 13% in the production of meat. This unusually high increase undoubtedly is due to some distress slaughtering. Certainly it is not high enough to indicate a very severe problem, but it does represent a higher level than the Soviets would presumably want.

CONFERENCE ON AMERICAN-SOVIET RELATIONS

The final program has now been drawn up for our conference on April 26. Since the first draft was announced in March, we have added three new speakers. They are Stanley Hoffmann, a professor of Government at Harvard. He will participate in the morning session on the discussion about the long-range perspectives. In the session after lunch, the group will be joined by Harry Kopp, who is Deputy Assistant Secretary of State for Trade Policy. Finally, the afternoon session will be joined by Howard Hjort of the Department of Agriculture, who, we hope, will be able to give us some perspective about the prospects for grain trade in the future.

It promises to be a very stimulating day, and we already have had very impresaive response and expect to have a large audience.

CURRENCY FIGURES

Rubles Purchased Per 100:	Mar.79	Jan.80	Feb.80	Mar.80
Aust. s.	4.880	5.170	5.130	5.130
U.K.pound	133.000	142.540	144.900	147.920
W.Ger.mark	35.660	37.170	36.860	36.860
U.S.dollar	66.100	63.950	63.950	64.750
Fr.franc	15.450	15.940	15.750	15.690
Jap.yen	.329	.268	.267	.261
Ital.lira	.079	.0795	.0792	.0795
Swiss fr.	39.550	40.000	39.590	38.890

Currency exchange rates for the U.K. pound, the U.S. dollar, and the Italian lira increased from February to March 1980, while the French franc, the Japanese yen, and the Swiss franc declined. The Austrian shilling and the West German mark remained unchanged.

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. IV, No. 9 May 8, 1980

INDUSTRIAL PRODUCTION FOR FIRST QUARTER 1980

Product	1st quarter 1980	% of 1st quarter 1980 over 1st quarter 1979
Electricity [bil. kw. hours]	354	107
Petroleum (Including gas condensate [mil. tons]	148	104
Natural gas [bil. cu.m.]	109	108
Coal [mil. tons]	186	99.7
Steel [mil. tons]	38.1	103
Fertilizer [mil. tons]	26.3	121
Metal-Cutting Tools [mil. rub.]	477	105
Computer Technology [mil. rub.]	1100	119
Watches [mils]	16.4	104
Radios [mils.]	2.1	102
Television sets (mils.)	1.9	106
Paper [mil. tons]	1.3	103
Cement [mil. tons]	30.4	111
Meat [mil. tons]	2.2	105
Margarine [1000 tons]	358	102
Motor vehicles	562	103
cars [1000's]	337	102
trucks [1000's]	203	103
Tractors [1000's]	140	100.6

INDUSTRIAL PRODUCTION FOR THE FIRST QUARTER OF 1980

Industrial production figures for the first quarter of 1980 continue to reflect the improvement in production over the results of the first quarter of 1979. Since March 1979 was somewhat of a more normal period of time compared to the very cold months of January and February 1979, the increase for the whole 1980 quarter is muted compared to the comparison on a month-to-month basis. Thus the percentage increase figures for the first quarter are not quite as high for most industries as they were for February 1980 over February 1979. Nonetheless they do show what must be regarded as satisfactory improvement.

The one industry that seems to have suffered the most was coal production. There production was actually less in 1980 than in the first quarter.

For those who are particularly interested in energy, the other industry that is of importance is the petroleum industry. Here production grew by 3.5% which the Russians have rounded off to 4%. That is not quite as impressive as it was in the February comparison, nonetheless it certainly reflects an improvement over what seemed to be taking place in 1979 in general. That 3.5% increase in production represents a 5 million ton increase. If the Soviets could continue to do that on a quarter-by-quarter basis which may be a bit more than they are capable of, that would represent a 3.5% increase for the whole year. That would mean a 20 million ton increment in production which would increase total production to 592 million tons. Granted that is below the target set for the 1980 plan that was announced this past December and is considerably below the target set for the entire Tenth Five Year Plan which was announced in 1976. Nonetheless it does show a substantial increase.

The other point of interest in the first quarter report is that meat production is a more normal 5%. The implication is that the distress slaughtering has been reduced.

CURRENCY FIGURES

Rubles Purchased per 100	Apr. 79	Feb. 80	Mar. 80	Apr. 80
Aus s,	4.840	5.130	5.130	4.96
UKpound	136.000	144.900	147.920	145.00
W. Ger. mark	35.450	36.860	36.860	35.39
US dollar	66.100	63.950	64.750	66.23
French franc	15.400	15.750	15.690	15.33
Jap. yen	.319	.267	.261	.265
Italian lira	.079	.0792	.0795	.0761
Swiss franc	38.190	39.590	38.890	37.69

CURRENCY FIGURES

The most striking change in the currency quotations issued by Gosbank are that the United States dollar has increased substantially in value. While there were periods of time in 1979 when it was quoted at a higher rate relative to the ruble, the figure quoted for April 15, 1980 is the highest that it has been for the year so far. Correspondingly, the Japanese yen has also increased although by a relatively small amount. All the other currencies in our selected sample fell in value; some, such as the Austrian shilling and the British pound and the German mark fell noticeably.

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OIL BONANZA FOR THE SOVIET UNION IN 1979

The increase in petroleum prices established by OPEC in 1979 was of enormous benefit for the Soviet Union. The statistical handbook for foreign trade statistics for 1979 has not yet been published, but based on the preliminary totals just released, it is clear that the Soviet Union took advantage of the high prices. This shows up if we look at Soviet exports to the Netherlands. They tripled in ruble value. It is safe to assume that virtually the entire 600 million ruble increase was due to Soviet trading on the spot market. Similarly Soviet ruble value exports jumped to almost every one of its trading partners except Greece. In some cases the increases were almost as substantial as they were in the case of Soviet exports to the Netherlands. In the case of West Germany, exports increased even more, that is, by over 700 million rubles. That, of course, involves not only just petroleum but probably also a substantial increase in natural gas exports. Similarly exports to France increased by almost 600 million rubles.

Although Soviet imports from Western Europe and Japan also increased, they increased considerably less. Thus while total imports grew by almost 1.3 million rubles, total exports to Western Europe and Japan grew by over 3 billion rubles. Overall this resulted in a trade surplus for the Soviet Union to Western Europe and Japan of almost 1.7 billion rubles. That contrasts with a trade deficit with the same countries in 1978 of almost 200 million rubles.

Unfortunately the bad harvest detracted from that overall surplus. To make up for the harvest, the Soviets had to import substantial quantities of grain from the United States. Consequently total American imports rose to almost 2.5 billion rubles. That, by the way, meant that the United States was the largest non-Communist trading partner the Soviet Union had in 1979, edging out West Germany (including West Berlin) by 2 million rubles. This increase was almost all grain and represented a 900 million ruble change from 1978. Similarly imports from Canada, Australia and New Zealand also increased, again largely because of increased purchases of grain.

Overall, the surplus generated in Western Europe and Japan was wiped out by the need to increase grain purchases so much, so that based purely on the balance of trade, that is excluding gold and military shipments, the Soviets had a trade deficit of slightly under 1.4 billion rubles. The likelihood, however, is that with the aid of arms shipments and other hard currency transactions, the Soviets probably ended up the year with a surplus in their balance of trade. Again this is due almost entirely to their export of petroleum.

SOVIET TRADE WITH THE NON-OECD COUNTRIES

While we don't present the figures, it is still worth making some observations about Soviet trade with other trading partners. Exports to the East European countries also rose significantly. In almost all cases that is due to the increase in petroleum and natural gas prices. Export rose 270 million rubles to Bulgaria. The highest increase was to Czechoslovakia at 500 million rubles. Romania, which apparently still does not receive Soviet petroleum, had an excrease in imports from the Soviet Union of 100 million rubles. That was probably due to the first shipments of natural gas.

Exports from the Soviet Union to Afghanistan rose by about 44 million rubles. Imports from Afghanistan rose about 64 million rubles which is almost entirely due to increased shipments of natural gas. Nonetheless the quantities involved are still quite small. Trade with Iran diminished significantly. Soviet exports to Iran were almost half what they were in the preceding year. Similarly imports were also cut by half.

Exports to Iraq fell by approximately 70 million rubles. That suggests that petroleum imports from Iraq fell from what they had been the preceding year. In contrast imports from Libya more than doubled and increased by 170 million rubles. That suggests that the USSR has resumed importing petroleum from Libya.

Balance of Trade 1976 1977, 1978, 1979

(Million Rubles)

	Exports From USSR				Imports To USSR			
	1976	1977	1978	1979	1976	1977	1978	1979
Austria	274	352	371	442	192	263	272	368
Belgium	323	353	408	533	218	220	257	286
GB	825	958	836	1094	408	375	662	811
Greece	162	237	189	180	62	78	70	65
Denmark	155	200	193	301	53	50	46	72
Italy	1069	1091	1112	1292	709	790	858	863
Netherlands	367	399	300	903	175	166	162	243
Norway	44	72	59	87	57	52	66	51
Germany	1178	1343	1498	2218	1977	1780	1969	2485
France	774	820	840	1426	923	904	974	1198
Switzerland	108	153	286	314	263	222	225	276
Sweden	281	277	312	554	259	228	190	223
Japan	748	853	736	944	1372	1444	1583	1661
Subtotal	6308	7108	7140	10288	6668	6572	7334	8602
Sub-Balance of Trade					-360	+536	-194	+1686
USA	199	272	253	350	2007	1262	1599	2487
Canada	42	49	29	32	499	368	359	453
Australia	3	4	5	5	407	325	275	393
New Zealand	2	3	3	3	79	119	42	114
Total:	6554	7436	7430	10678	9660	8646	9609	12049
Balance of Trade					-3106	-1210	-2179	-1371

HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. IV, No.9 June 5, 1980

INDUSTRIAL PRODUCTION FOR THE FIRST FOUR MONTHS OF 1980

Product	April 1980	Jan.-Apr.80	% of 1st 4 mos. of 80 over 79
Electricity [bi. kw. hours]	99.0	434	106
Petroleum (Including gas condensate) [mil.tons]	49.1	197	103
Natural gas [bil.cu.m.]	35.3	145	107
Coal [mil. tons]	61.6	248	100
Steel [mil.tons]	12.6	50.7	102
Fertilizer [mil. tons]	8.9	35.2	117
Metal-Cutting Tools [mil. rubles]	20.4	80.2	102
Watches [mils]	5.1	19.5	104
Radios [mil's.]	.7	2.8	102
Televisions [mils]	185	713	125
Paper [mils. tons]	.4	1.8	102
Cement [mils. tons]	10.6	41.0	108
Meat [mils. tons]	.5	2.7	103
Motor Vehicles cars [1000's]	113	450	102
trucks	68.7	271	103
Tractors [1000's]	48.9	189	102

Industrial production during the first four months of 1980 continued its growth over the first four months in 1979. Of course it should be remembered that there is one extra day thus far in 1980 because of Leap Year. However that impact to the extent that it was significant showed up primarily for the first two months and the first quarter. Now it is becoming less of a factor. In any case the results for 1980 look better for the corresponding period in 1979 over 1978. The rate of growth is not as spectacular as it was ten years ago, but taken in the context of the recession we are having in the United States, the Soviet growth, despite Leap Year and despite an increase in population is not to be dismissed.

For those who keep a sharp eye on Soviet statistical reporting over the various months, you will note that the Soviets have changed the way they define some of their industrial indices. Computer production and vegetable oil production are not listed at all in the latest report period. In addition, the definition of electricity production, watches and machine tool production has been changed and is not strictly comparable to the figures we have published in the past. We have listed the new figures however and the Soviet report of how production has increased in this period over last.

Among the specific industries showing an increase, those that are most interesting continue to be the energy industries. First of all oil production continues to increase. For the four month period, there is an increase of 3%. For the month of April alone however, the increase is a touch under 2%. Similarly on a day-by-day basis allowing for the extra day in 1980, the increase is also just about 2%. On a yearly basis it would mean that Soviet output would increase by about 18 million tons over 1979 if the current rate is maintained. Certainly the Soviets would feel more comfortable if the rate were higher but for the time being at least output continues to grow.

A similar decline from the figures reported for the first quarter of 1980 are indicated in electrical industry and in the gas industry. Both industries still show a respectable rate of increase. But the rate again is down from what was reported for the first 3 months of 1980.

In contrast coal production seems to have increased a bit. Whereas for the first three

months of the year production was actually below what it had been in 1979, now it is up by 5 million tons over the preceding four months of 1979. But in addition it also increased on a day-to-day basis when allowance is made for the extra Leap Year day.

The only other item of note is that meat production increased by only 3%. This would indicate that on the kolkhoz and state farms at least, there has been very little distress slaughtering spaced out over the first four months of 1980.

CURRENCY FIGURES

Rubles Purchased per 100	May 79	April 80	May 80
Aus. s.	4.780	4.96	5.04
UK pound	136.650	145.00	148.92
W. Ger. mark	35.190	35.39	36.00
US dollar	66.500	66.23	65.20
French franc	15.320	15.33	15.43
Jap. yen	.305	.265	.266
Italian lira	.079	.0761	.0770
Swiss franc	38.750	37.69	38.58

CURRENCY FIGURES FOR THE MONTH OF MAY

The only noticeable change in the quotations published by Gosbank is that the value of the dollar fell by 1 1/2% and brought with it the Canadian dollar. All the other currencies quoted in the table we publish rose substantially and most of the other currencies fell.

WANTED - JOBS

As usual at this time of the year, there are several students in the Russian area program at Harvard who are looking for jobs, both for the summer and after graduation. These students have had two years of intensive training in the languages, the culture and the economies of the East European countries. Anyone interested in interviewing or considering any of these students please contact Marshall Goldman, (617) 495-4038 or 4485.

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. IV, No.10

July 9, 1980

INDUSTRIAL PRODUCTION FOR THE FIRST FIVE MONTHS OF 1980

Product	May 1980	Jan.-May 80	% of 1st 5 mos. of 80 over 79
Electricity (bi. kw. hours)	98.9	558	106
Petroleum (Including gas condensate) (mil.tons)	51.0	248	104
Natural gas (bil.cu.m.)	35.6	180	107
Coal (mil. tons)	56.7	305	99.7
Steel (mil.tons)	12.9	63.6	102
Fertilizer (mil.tons)	9.3	44.5	114
Metal-Cutting Tools (mil. rubles)	20.5	100.7	101
Watches (mils)	5.1	27.4	103
Radios (mils)	.7	3.5	102
Televisions (mils)	.6	3.1	104
Paper (mils.tons)	.4	2.2	102
Cement (mils.tons)	11.1	52.1	106
Meat (mils. tons)	.5	3.2	100.6
Motor Vehicles cars (1000's)	103.0	555	102
trucks	60.1	332	102
Tractors (1000's)	44.2	233	102

RRC CONFERENCE

On April 28, 1980, at the Harvard Faculty Club, The Harvard Russian Research Center, Columbia University's Russian Institute, the U.S. Department of Commerce's Bureau of East-West Trade, and the Department of State sponsored a conference entitled "Is Detente Dead? -- After Afghanistan What?" The first panel's topic was "The Long-Range Perspective Towards US-USSR Relations: Potential Constraints on Eastern Europe." Its members were Adam Ulam, Professor of Government, Harvard University; Richard Pipes, Professor of History, Harvard University; Stanley Hofman, Professor of Government, Harvard University; and Seweryn Bialer, Director of the Research Institute of International Exchange, Columbia University. The second panel concerned "What Should U.S. Government Attitudes be Towards the USSR?" Its participants consisted of Harry Kopp, Deputy Assistant Secretary of State for Trade Policy; John Steinbruner, Director of Foreign Policy Studies, Brookings Institution; Marshall Brement, National Security Council, and Martin Wenick, U.S. Department of State. The final group of presentations dealt with "The Future of US-USSR Trade Policy." The panel included J. Mishell George, Acting Deputy Assistant Secretary of Commerce, Bureau of East-West Trade; Howard Hjort, Director of Economic Policy Analysis & Budget, U.S. Department of Agriculture; Kempton Jenkins, President of the US-USSR Trade and Economic Council; and Robert Schmidt, Executive Vice President of the Control Data Corporation.

There was general consensus that the day's cloudy weather was indicative of the participants' gloomy outlook on US-Soviet relations in the near future. There was agreement that it is difficult to forecast long-term trends in both American and Soviet foreign policies. For both countries, long-term planning is nearly impossible because the US-USSR interaction cannot be isolated from the overall world picture. Thus for

both sides, foreign policy consists of managing short-term problems, very much in a crisis management fashion. The mutual dependency of one nation's foreign policy on the actions of the other hinders long-run planning. Nonetheless, domestic changes that doubtlessly will occur in the Soviet Union, are certain to have foreign policy implication. First, there will be (and actually is already underway) a political succession in the Soviet Union. This succession in many ways will be different from anything in the past. It combines three key elements: 1) the top leader will be changed, possibly as part of a two stage process, 2) over 600 key personnel within the Party/State apparatus will be replaced over the next 10 years including the majority of the Central Committee and the Council of Ministers, and 3) for the first time, the people who will be assuming power will be individuals who were "politicized" during the post-Stalin era.

Second, the rate of growth of the Soviet economy is declining. GNP growth will be in the neighborhood of 2-3%. In addition, the Soviet Union faces severe demographic and possibly energy problems in the future. As a result, the Soviet Union will be faced with major allocation decisions. Will they continue to increase their defense spending, try to improve the material welfare of its people, or try to increase investment and production? They will have to make choices. The implications of these developments might be that the Soviet Union will be tempted to make some defense cuts, obtain more technology from the West, change the economic cost to them of their relationship to Eastern Europe, and possibly have their foreign policy manipulated by individuals using it to consolidate their own political power at home. One should be under no illusions, if the West continues to increase its defense budget, the Soviets will make the sacrifices they see as necessary for their military and political security.

In the short-term, there are many dangers confronting us. Both the US and the USSR apparently perceive that over the next ten years their military situations will deteriorate. Thus we might have a situation similar in nature to 1914, when Germany decided that since war will eventually come it is better to have it come now, before the situation gets worse as it should in the future. For this reason the United States should be very careful not to appear to be unleashing the Chinese on the Soviets too rapidly or trying to "right" the growing military imbalance. Such policies would be destabilizing. Furthermore, to avoid the possibility of war resulting from Soviet miscalculation, the United States should try to make its intentions clear and provide an appearance of consistancy and strength. The Carter administration's perceived vacillations may have contributed to Soviet miscalculation regarding our reaction to their invasion of Afghanistan. Additionally, after the U.S. Senate's failure to approve the Salt II Treaty and the general dissatisfaction with detente, the Soviets probably calculated that they little to lose.

In the area of trade, the short-term is bleak. U.S. trade with the Soviet Union is likely to fall in 1980 to $2.5 billion from the 1979 level of $4.8 billion. Most of our sales have been in the field of agriculture. Despite the imposition of trade sanctions, the administration is not burning its bridges in the trade area with the Soviet Union. We are continuing to honor our Grain Agreement of 1975. Because the Soviets can probably find alternative suppliers for most of the products that they intended on receiving from the U.S. (except in the area of grain), the trade sanctions might not be economically effective, though they do constitute a clear political signal.

Ethan Burger

CURRENCY FIGURES

Rubles Purchased per 100	June 79	May 80	June 80
Aus. s.	4.750	5.04	5.10
UK pound	137.350	148.92	152.50
W. German mark	34.86	36.00	36.34
US dollar	66.90	65.20	64.35
French franc	15.06	15.43	15.59
Jap. yen	.305	.266	.290
Italian lira	.0782	.0770	.0774
Swiss franc	38.490	38.58	39.21

The change in the currency exchange rates as quoted by Gosbank from May 1980 to June 1980 generally reflect the overall trend for the year (with the exception of the Italian lira and Japanese yen which reflected a higher value last year at this time). The value of the U.S. dollar continues to drop, while the other currencies increased.

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol: IV, No. 12

August 7, 1980

INDUSTRIAL PRODUCTION FOR THE FIRST SIX MONTHS OF 1980

Product	Jan.-June 80	% of 1st 6 mos. of 80 over 79
Electricity (bil. kw. hours)	652	105
Petroleum (Including gas condensate) (mil. tons)	297	103
Natural gas (bil.cu.mu.)	214	107
Coal (mil.tons)	362	99
Steel (mil. tons)	75.9	101
Fertilizer (mil. tons)	53.2	112
Metal-Cutting Tools (mil. rubles)	970	105
Watches (mils.)	32.9	103
Radios (mils.)	4.2	101
Television sets (mils.)	3.7	103
Paper (mil. tons)	2.6	100.6
Cement (mil. tons)	62.9	105
Meat (mil. tons)	4.3	98
Motor Vehicles cars (1000's)	662	102
trucks	395	102
Tractors (1000's)	279	101

Industrial Production Figures for the First Six Months of 1980

The production results for June 1980 were obviously not as good as the Soviets had hoped. The most troublesome report is production in the oil industry. While production for the six months as a whole of 1980 over 1979 was up by about 3 1/2%, the output for June 1980 compared to June 1979 was not quite as encouraging. Output rose from 48 million tons of petroleum produced in 1979 to just 49 million tons in 1980. This would mean -- assuming that a rounding-off of numbers made no difference -- that there was only a 2% increase. That is far off the mark of 4% reported for the first five months of 1980 over 1979. Of course it turns out that the figures for 1979, as we have mentioned earlier this year, were very low. In particular, in April and May of 1979, there were floods. Nonetheless the increase by only 1 million tons for June 1980 is obviously something the Soviets should worry about. If this should continue, the CIA may yet prove to be right for the rest of 1980.

The Soviets are also having trouble with their coal production. Coal production for the first six months of 1980 was down 4 million tons from what it was in the comparable period for 1979. Generally, overall production figures are unlikely to make Soviet planners very happy. Amongst the basic industries, only natural gas production was up 7%. While that is certainly encouraging, it is nonetheless below the 9% increase that the Soviets obtained in the comparable period in 1979 over 1978.

Meat Problems in the Soviet Union

The reports of strikes in various Soviet cities in part precipitated by the shortage of meat has been hard to verify. But while the strikes may be difficult to verify, there is little difficulty in showing that indeed the Soviets have a very serious meat problem on their hands. Looking over our Newsletters for the past year, the reader will notice that whereas meat production rose by 10% in January and 13% in February, in large part due to the distress slaughtering that the Soviets were forced to undertake because of the suspension of grain supplies under the Afghanistan embargo, the opposite situation

occurred later in the year. Thus in May 1980, meat production was down about 17% compared to May 1979.

It is more difficult to make a definitive statement about the June results. The Soviets have changed the statistical base - probably to cause confusion. Previously the figure reported was normally "meat (from material from government sources.)" For the June 1980 figure, however, they report "meat (industrially prepared.)" Consequently a precise comparison for June 1980 over June 1979 is impossible. Even with this new base, they report that production for the first six months of 1980 is 98% of what is was for the comparable period in 1979. It is safe to assume that the grain embargo has added significance to the meat shortage.

First Corporate Sponsor Conference of the Year

The first Corporate Sponsor Conference for 1980-81 promises to be an exciting one. It will focus on the prospects for energy production in the Soviet Union. When we first began the Corporate Sponsor Series Seminar in the fall of 1976, we began with Soviet energy. We took a second look in the fall of 1978, and now as we begin our fifth year of conferences, we return with another look.

The agenda and enrollment form are enclosed. The session promises to be an exciting one as we will present a variety of views. We will have representatives with differing points of view from the government as well as the university, and the business sector. Even though this is the third time we have examined the question, the topic is even more important than before. The Conference promises to be a very stimulating session.

For those who are long-time attendees of these sessions, you should notice that the meetings have been switched to the Pound Building in the Harvard Law School.

BALANCE OF TRADE - 1st QUARTERS 1979 AND 1980
(Million Rubles)

	Exports From USSR		Imports To USSR	
	1979	1980	1979	1980
Austria	71	131	66	72
Belgium	61	192	70	88
GB	196	163	179	260
Greece	19	91	17	25
Denmark	27	44	38	23
Spain	28	46	38	31
Italy	196	366	228	216
Netherlands	74	234	71	61
Norway	10	12	12	19
Germany	281	465	627	840
France	196	424	309	470
Switzerland	27	73	80	125
Sweden	46	51	66	69
Japan	173	207	427	439
Subtotal	1405	2499	2228	2738
Sub-Balance of Trade			-823	-239
USA	39	18	371	505
Canada	7	8	47	78
Australia	1	1	53	182
New Zealand	1	1	31	60
Argentina	11	11	32	190
Total	1464	2538	2762	3753
Balance of Trade			-1298	-1215

Correction

In the May Newsletter, we offered the supposition that Rumania apparently still does not receive Soviet petroleum." Subsequent data indicates that Rumania began to import small amounts of petroleum from the Soviet Union in 1979 and has continued to import that petroleum in 1980. So far, it is still a limited amount of petroleum, about 400 thousand tons in 1979 and about 1 million tons in 1980. This means that Rumania has been forced to change a policy that it has held to far many decades.

The Foreign Trade Balance in Petroleum

The Soviet Union continues to benefit from the increase in petroleum prices. As a look at the balance of trade figures for the first quarter of 1980 compared to 1979 indicates, the Soviet Union increased its exports by over a billion rubles in 1980 compared to 1979. Had it not been for the bad grain harvest and the necessity to import increased quantities of grain, the Soviet trade deficit with the West European countries and Japan would have amounted to only about 200 million rubles (about $350 million) compared to 800 million rubles the previous year. Because of the grain purchases including grain imported from the United States, the Soviet trade deficit for a larger sample of hard currency countries shows that the increased purchases of grain virtually wiped out the benefits obtained from the higher price of petroleum.

Just how important petroleum is can be surmised even though the Soviets have not released specific figures about petroleum imports. Thus in the case of the Netherlands, which is the destination of much of the Soviet petroleum sold on the spot market, exports increased by more than three times. Indeed in most cases they were double what they had been before, except in the case of Norway and Great Britain which naturally enough have now become self-sufficient in petroleum. The only other two countries where Soviet exports did not increase by such a large magnitude were Sweden and Japan.

We have also included statistics from Argentina to show how Argentina's trade exports to the Soviet Union increased when the USSR was forced to look elsewhere for its grain purchases.

Letters to the Editor

In the almost five years that we have been printing these newsletters, we have received a variety of letters. The most recent one from Gregory Grossman points out that there was a typographical error in the June 1979 Newsletter. That helps to explain some confusion that other readers might have noticed in the June 1980 Newsletter. We were struck by the fact that coal production seemed to have increased by 5 million tons in the first four months of 1980 over 1979. As Professor Grossman points out, that was because of a misprint in the June 1979 Newsletter. Actually production for the first four months of 1979 was 248 million tons, the same as it was in January-April 1980. We apologize if this caused any of our readers needless confusion. If other readers notice other mistakes or have other comments, please let us know.

CURRENCY FIGURES

Rubles Purchased per 100	July 79	June 80	July 80
Aust. s.	4.840	5.10	5.12
U.K. pound	142.250	152.50	150.60
W. Ger. mark	35.670	36.34	36.39
U.S. dollar	65.400	64.35	64.35
Fr. franc	15.400	15.59	15.67
Jap. yen	.304	.290	.296
Ital. lira	.0788	.0774	.0768
Swiss franc	39.750	39.210	39.370

The currency exchange rates quoted by Gosbank for July, 1980 reflect the following changes: All currencies reported here rose in value, except for the Italian lira and British pound which reflect a decrease for the month. The U.S. dollar remained the same in value.

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. V. No. 1 September 5. 1980

INDUSTRIAL PRODUCTION FOR THE FIRST SEVEN MONTHS OF 1980

Product	July 80	Jan.-July 80	% of 1st 7 mos. of 80 over 79
Electricity (bil. kw. hours)	98.2	750	105
Petroleum (Including gas condensate) (mil.tons)	51.3	348	103
Natural gas (bil.cu.m.)	35.3	250	107
Coal (mil.tons)	58.7	420	99
Steel (mil.tons)	12.2	88.1	101
Fertilizer (mil. tons)	8.5	61.7	111
Metal-Cutting Tools (mil. rubles)	155	1126	106
Watches (mils.)	5.7	38.7	103
Radios (mils.)	.7	4.9	101
Television sets (mils.)	.6	4.3	103
Paper (mil. tons)	.4	3.1	99.9
Cement (mil. tons)	10.5	73.3	104
Meat (mil. tons)	.6	4.5	95
Motor Vehicles			
cars (1000's)	111	774	102
trucks	63.9	459	102
Tractors (1000's)	45.8	324	102

INDUSTRIAL PRODUCTION FOR THE FIRST SEVEN MONTHS OF 1980

As reported in our August Newsletter, the Soviets continue to show improvement over last year's economic performance. They are still having trouble with steel production and coal but otherwise production in the main heavy industries seems to have recovered from the very serious problem which appeared last year at this time.

Most important of all perhaps, crude oil production for the first seven months of 1980 has increased 3.3% over what it was for the first seven months of 1979. The corresponding figure for the first seven months of 1979 over 1978 was 2.7%. Even more striking is the fact that production in July 1980 was up 3.8% over what it had been in July, 1979. That is a clear improvement over the reported increase in production for July 1980 compared to July 1979. It looks like the CIA will have to wait a little longer for production to drop. In fact, if petroleum production for the remainder of the year remains exactly what it was in 1979, petroleum production for 1980 as a whole will have increased by 11 million tons over what it was in 1979, that is a 2% increase. The Soviet Union may not meet its target for the whole year, but the likelihood is that they will still show a substantial increase over 1979.

As we reported in the August issue, meat production continues to drop. For July 1980 compared to 1979, production dropped about 17%.

ARDEN HOUSE RISES AGAIN

For those who were disappointed about our cancellation of the 1980 meeting at Arden House, you should be reminded that we are planning to try again. The meeting in 1981 will take place on March 13 - March 15. Note carefully that means that we will convene on Friday afternoon and adjourn after lunch on Sunday. That is a change from the regular pattern, but it was the only time that we could reserve Arden House. This will mean less time will be lost in the office, but more time will be taken away from the family. There will be more information about the program available later in the year, but we urge you to mark your calendars now. If you have any strong feelings about the change in the time of the week that Arden House will be held, we would also appreciate learning about that.

OUR OWN FIVE YEAR PLAN!

The careful reader will have noticed that this issue marks our fifth year of publishing the Russian Research Center Newsletter. In all candor. we must confess that we did not have a five-year plan when we began, and no one thought that we would last (the Newsletter, that is) this long. However, much to our own surprise, we continue to publish our letter monthly. Granted that it sometimes comes out in the middle of the month, nonetheless we have never missed an issue despite the editor's spending a fall semester in Moscow and making lecture tours to China and Europe in other years. But more important, we do seem to have a core of loyal readers out there who not only use the Newsletter to keep abreast of current developments, but read it so carefully that they catch our mistakes. Similarly there have been times when we have received letters wondering why the Newsletter was a week or two late. Such interest helps to make the effort worthwhile and we hope very much that the interest and the Newsletter will continue for at least another five years.

CURRENCY FIGURES

Rubles Purchased per 100	Aug. 79	July 80	Aug. 80
Aust. s.	4.85	5.12	5.17
U.K. pound	150.00	150.60	151.67
W. Ger. mark	35.61	36.39	40.50
U.S. dollar	64.70	64.35	63.70
Fr. franc	15.29	15.67	15.75
Jap. yen	.302	.296	.283
Ital. lira	.0793	.0768	.0768
Swiss franc	39.42	39.37	39.73

The currency exchange rates as quoted by Gosbank for August 1980 reflect an increase for all currencies reported here except the U.S. dollar and Japanese yen which dropped in value, and the Italian lira which remained the same.

NEW BOOK ON SOVIET PETROLEUM PROSPECTS

Readers of this Newsletter may be interested in a new book which is scheduled for publication in September entitled, Enigma of Soviet Petroleum - Half Empty or Half Full? The book calls into question some of the conclusions previously reached by CIA reports. It is written by the editor of this Newsletter, Marshall I. Goldman. Careful readers of the Newsletter will have sensed that the editor is somewhat skeptical of claims that the Soviets will be forced to import large quantities of petroleum by 1985 or that production will fall this year. As the discussion of industrial production in the Newsletter for the first seven months of 1980 indicates, that certainly is not likely to happen in 1980.

The book is published by Allen & Unwin, and sells for $7.95 paperback, or $19.50 hardcover. Those interested in buying the book can write the publisher directly at 9 Winchester Terrace, Winchester, Mass. 01890, or they can write Marshall I. Goldman at the Russian Research Center. Corporate sponsors will be sent a free copy of the book within the next few weeks.

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HARVARD

RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. V, No. 2 October 1, 1980

INDUSTRIAL PRODUCTION FOR THE FIRST EIGHT MONTHS OF 1980

Product	Aug. 1980	% over Aug.'79	Jan.-Aug.80	% of 1st 8 mos. of 80 over 79
Electricity (bil.kw.)	98.9	104%	849	105%
Petroleum (including gas condensate/mil.t.)	51.5	102.8%	400	103.4%
Natural gas (bil.cu.m.)	35.7	108.5%	285	107.1%
Coal(mil.tn.)	58.4	99.7%	479	99.2%
Steel(mil.tn.)	12.0	96.8%	100.1	100.5%
Fertilizer (mil. tons)	8.8	110%	70.4	110.7%
Computer Technology(bil. rubles)	.4	133%	2.9	116%
Watches(mils.)	5.3	94.6%	44.0	102%
Radios(mils.)	.7	100%	5.6	100%
Television sets(mils.)	.6	100%	4.9	102%
Paper(mil.t.)	.4	80%	3.5	112%
Cement(mil.t.)	10.4	99%	83.8	103%
Meat (mil.t.)	.7	87.5%	5.2	94.5%
Motor Vehicles				
cars(1000s)	107.	93.9%	881.	100.6%
trucks	63.4	99.2%	522	102%
Tractors (1000s)	44.1	95.7%	369	100.8%

STRIKES IN THE SOVIET UNION?

Have Soviet workers, like their counterparts in Poland, been on strike? There were rumors of strikes in Soviet automobile, truck and tractor plants earlier this spring and summer, but everything seemed to quiet down.

Now, an analysis of official Soviet production figures for the month of August received in the United States yesterday suggests that there have been disruptions of some sort that have had a serious impact on Soviet industry. Automobile production in August 1980 fell by more than 6 percent from a comparable period in 1979. Tractor production also fell by more than 4 percent and steel production by 3 percent.

Such a fall in production is unprecedented. Production in various Soviet industries may drop a fraction of a percent now and then or even 1 percent - but never previously as much as 6 percent.

It may be that American Kremlinologists are too suspicious - after all, Americans are not likely to become excited about a drop in automobile production. But one thing is sure - the drop in the Soviet Union was not caused by competition from Japanese automobile imports.

Soviet industry has been hard-pressed to maintain normal production procedures while supplying an army of occupation in Afghanistan, and it is conceivable that the Soviets are having trouble maintaining a "car and guns" economy. There are reliable reports of a diversion of fuel from the civilian sector to the military, and the Soviets may have shifted automobile and tractor production to armored cars and tanks.

It is also possible that the drop in steel production of 3 percent in August precipitated some disruption of raw material flows to the automobile industry.

But the magnitude of the drop in automobile production suggests that there is something more involved. Given the volatility of the workers this summer throughout eastern Europe because of the shortage of consumer goods and especially the drop in meat production (in the Soviet Union, meat produc-

tion in August 1980 was down about 12 percent from the previous August), the supposition that there may have been additional work stoppages in the Soviet Union is a realistic one.

Whether or not there were strikes is difficult to verify. The Soviet government so far has officially denied any problems, even those rumored in May and June.

But it seems the Soviets have changed the way they usually report their monthly production figures to mask just such a revelation. Usually they show monthly percentage increases industry by industry. But in the production report for August 1980, they only provide 1980 statistics with no comparisons to an earlier period. When an unexplained change of this sort takes place, a Kremlinologist is trained to take a second look - something may be amiss; what are they trying to hide?

In this case we now know - they are hiding a sharp drop in production. We don't know the cause - it may be just an echo effect from the rumored earlier stoppages in May and June - but among the possibilities, the most logical one is that Soviet automobile workers went on strike in August just as they did a few weeks later in Poland.

CURRENCY FIGURES

Rubles Purchased Per 100:	Sept.79	Aug.80	Sept.80
Aust. shilling	4.87	5.17	5.08
U.K. pound	147.20	151.67	154.62
W. Ger. mark	35.61	40.50	36.00
U.S. dollar	65.20	63.70	64.90
French franc	15.29	15.75	15.47
Japanese yen	.298	.283	.295
Italian lira	.0797	.0768	.0758
Swiss franc	39.42	39.73	38.98

Currency exchange rates for the British pound, the U.S. dollar and the Japanese yen increased in value from August to September 1980, while the remaining currencies reported here reflect a decrease in value.

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